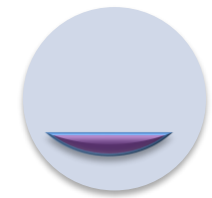




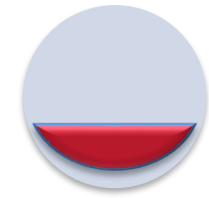
# **FMDQ** **Investment** **Options:** **Sovereign &** **Corporate** **Bonds**

Tosin Osunkoya  
Co-Managing Partner, Comercio Partners  
April 26, 2023

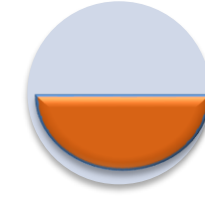
# Contents



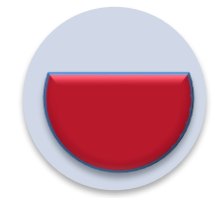
**Overview**



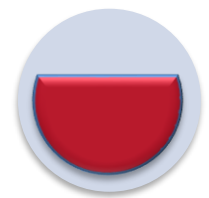
**Trend  
Analysis**



**Key Stakeholders**



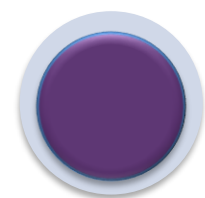
**Benefits**



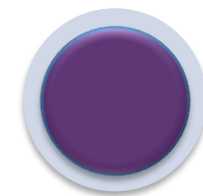
**What to  
watch for**



**Risks**



**Investment Access  
and Platforms**



**Investor Types**



# Overview

## Sovereign Bonds

Sovereign Bonds are issued by the government of a country (FGN) to raise money to finance the budget deficit  
Sovereign Bonds are risk free investments

Sovereign Bonds include FGN Bonds, State Bonds, Subnational Bonds, Sukuk Bonds and FGN Savings Bonds

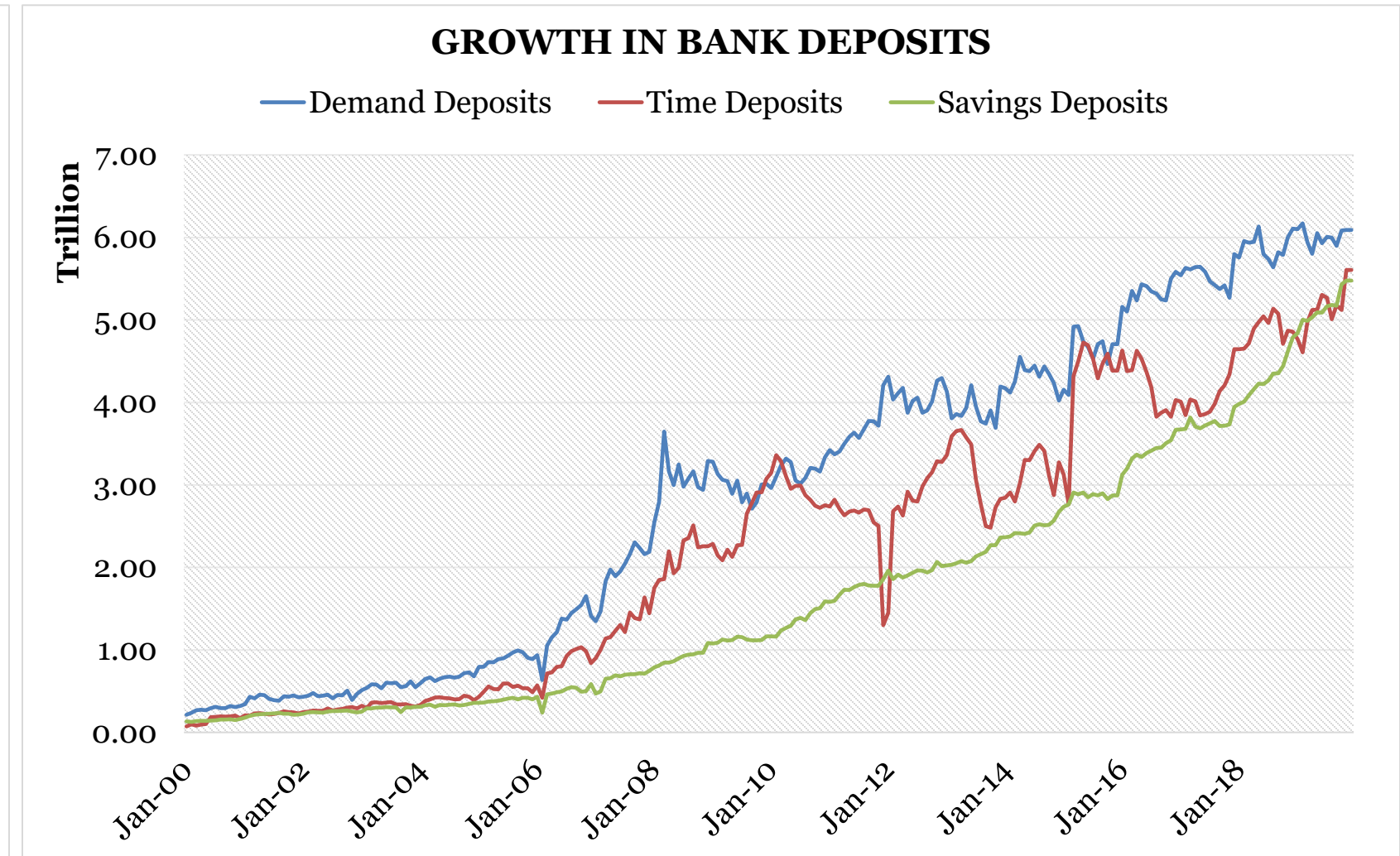
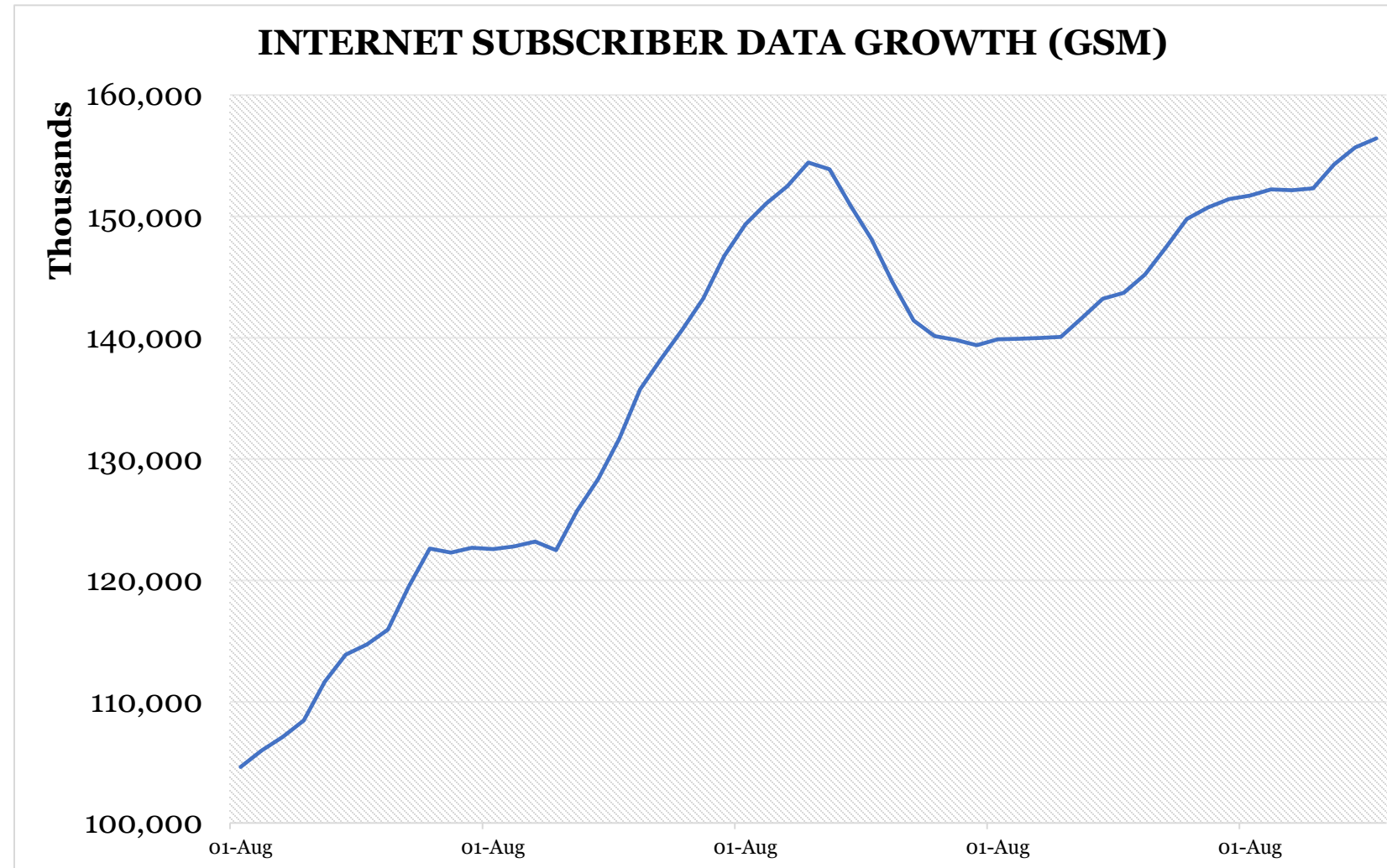


## Corporate Bonds

Corporate Bonds are issued by in any industry e.g banking and industrials used to fund CAPEX or OPEX.

Investments in corporate bond have a greater level of risk than sovereign bonds although they have a risk premium attached to the return

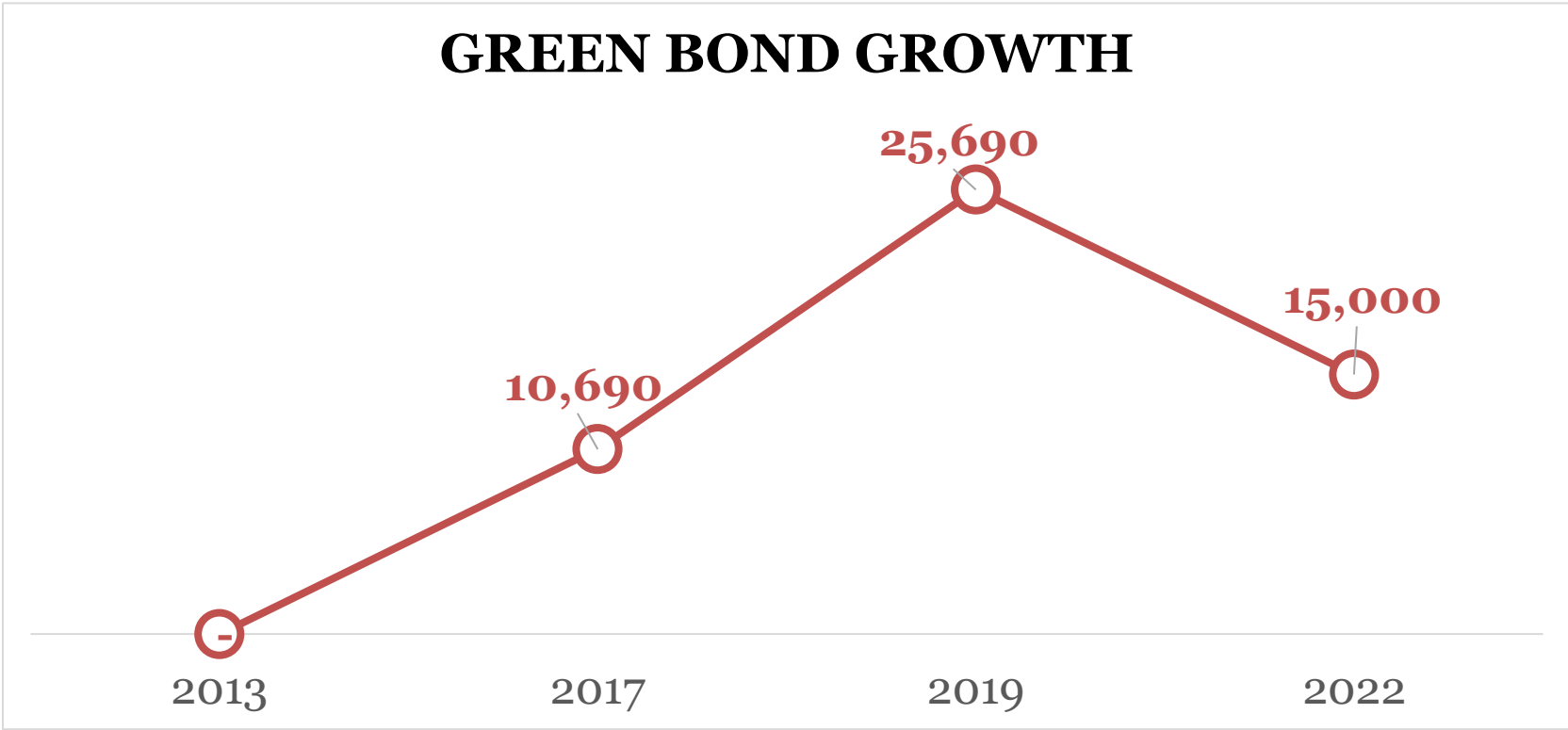
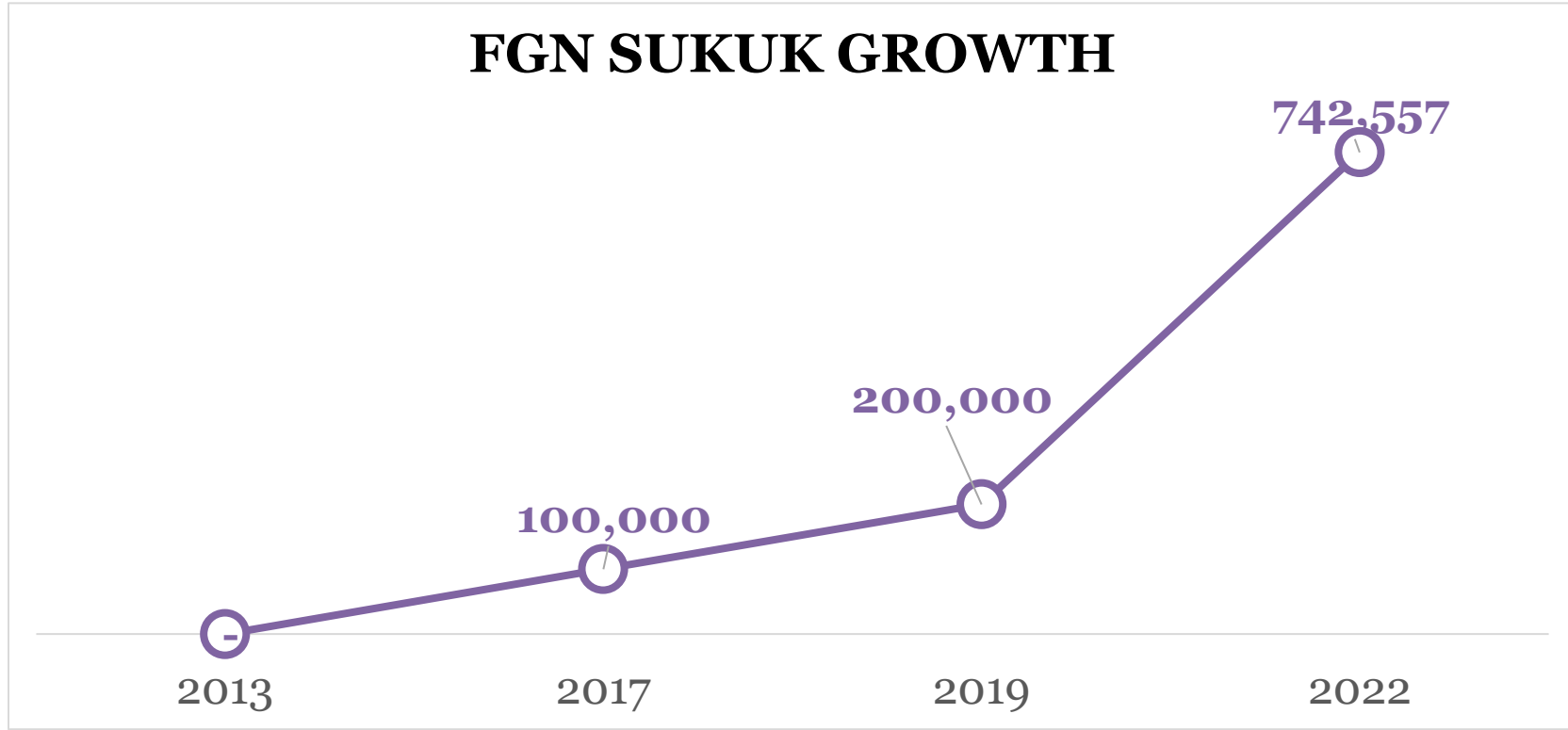
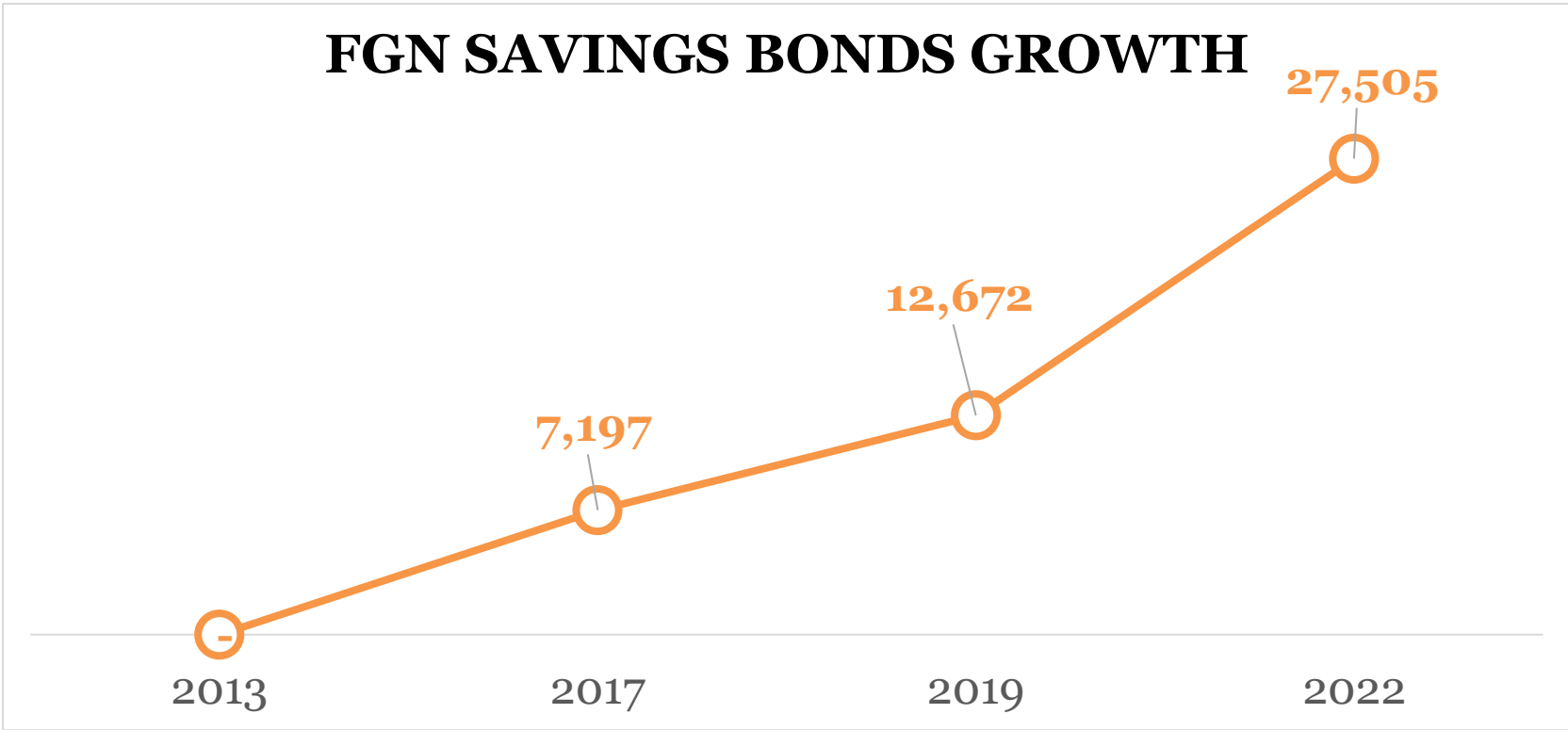
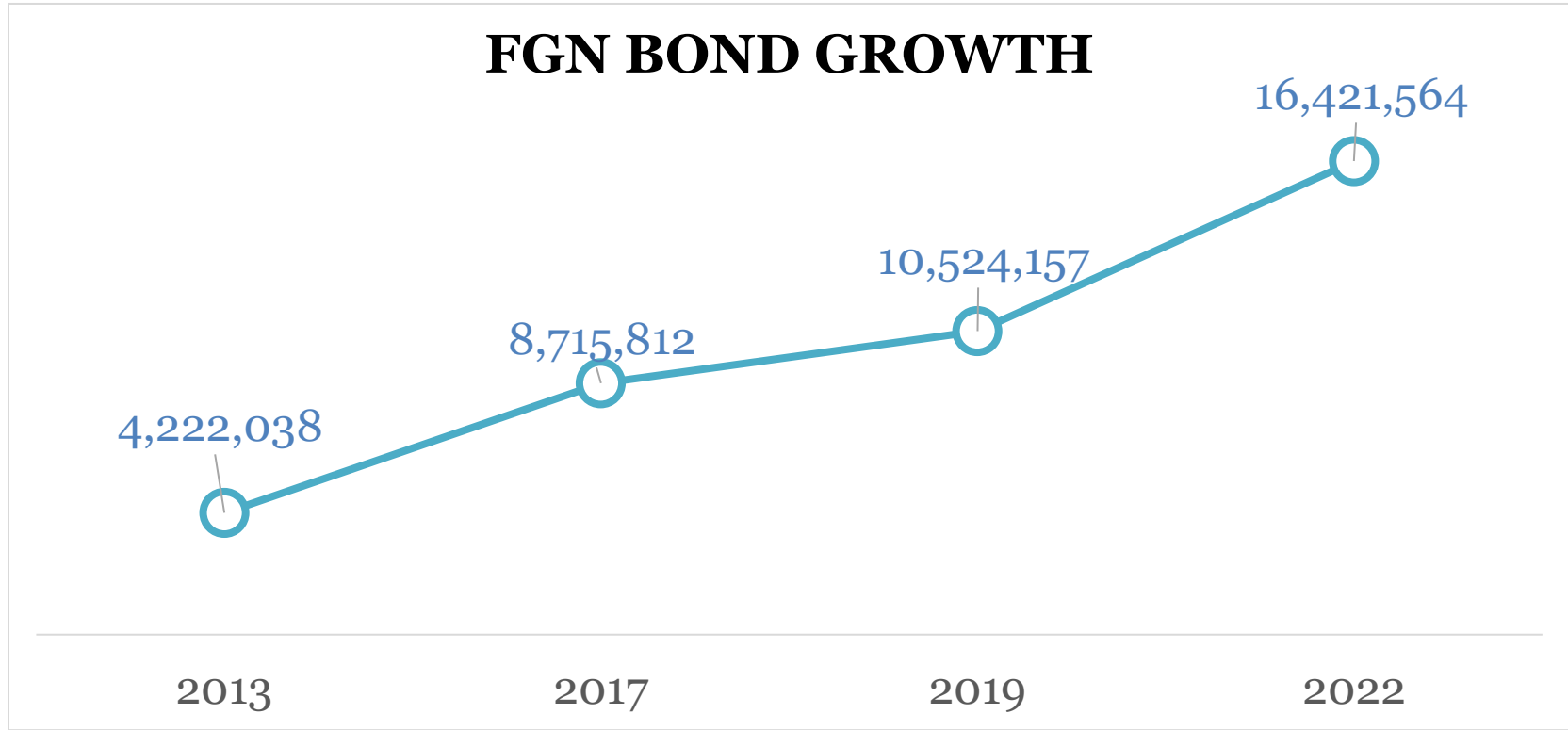
# Trend Analysis



- Internet penetration stands at 55.4% of the population at the start of 2023
- This represents an increase of 2.4 percent

- Over the years, there have been significant growth in bank deposits with savings account deposits grown by over 4,000% to N5.4trn

# Trend Analysis (in millions)



# Some Outstanding Issues

## (Government Bonds)



Issuer - Federal Government of Nigeria (23/02/2028)  
 Amt Issued / Outstanding – 1.462 tn  
 Tenor – 10 years  
 Coupon – 13.98%  
 Issue date – 23/02/2018

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Issuer - - Federal Government of Nigeria (18/04/2037)  
 Amt Issued / Outstanding – 1.797 Tn  
 Tenor – 20 years  
 Coupon – 16.2499%  
 Issue date – 18/04/2017

---



Issuer - Federal Government of Nigeria (27/03/2050)  
 Amt Issued / Outstanding – 1.352 tn  
 Tenor – 30 years  
 Coupon – 12.98%  
 Issue date – 27/03/2020

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## (Corporate Bonds)



Issuer - Dangote Industries Funding PLC (Issue 2)  
 Size – 112.42 bn  
 Tenor – 10 years  
 Coupon – 16.75%  
 Issue date – 05/12/2022

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Issuer - MTN Nigeria Communications PLC 2 (Tranche 1B)  
 Size – 104.91 bn  
 Tenor – 10 years  
 Coupon – 14.50%  
 Issue date – 30/09/2022

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Issuer - Geregu Power PLC (Issue 1)  
 Size – 40.09 bn  
 Tenor – 7 years  
 Coupon – 14.50%  
 Issue date – 28/07/2022

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# Key Stakeholders



## GOVERNMENT

Issuer of sovereign bonds through the Debt Management Office (DMO)



## CORPORATES

Issuers of corporate bonds through the capital market operators



## REGULATORS

Regulatory and Self-Regulatory bodies who have oversight of capital market activities such as FMDQ, SEC, CBN and NGX



## RETAIL INVESTORS

Individuals including HNIs and mass affluent



## CAPITAL MARKET OPERATORS

Issuing houses, investment marketers (stockbrokers, banks and asset management firms) who aggregate subscription to the bonds.

# Benefits

## For Investors



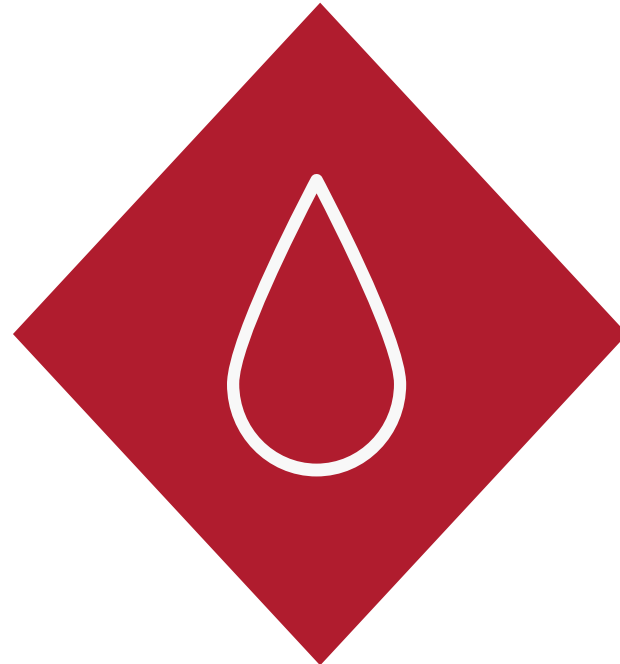
### Low Risk

Issued by government entities and are considered low-risk investments since they are backed by the full faith and credit of the government.



### Regular Income

Offer regular interest payments to the bondholder at fixed intervals, providing a steady stream of income.



### Liquidity

Easily tradable on stock exchanges, making it easy for investors to sell their holdings and raise cash when needed.



### Tax Advantage

Income on sovereign bonds are tax exempt



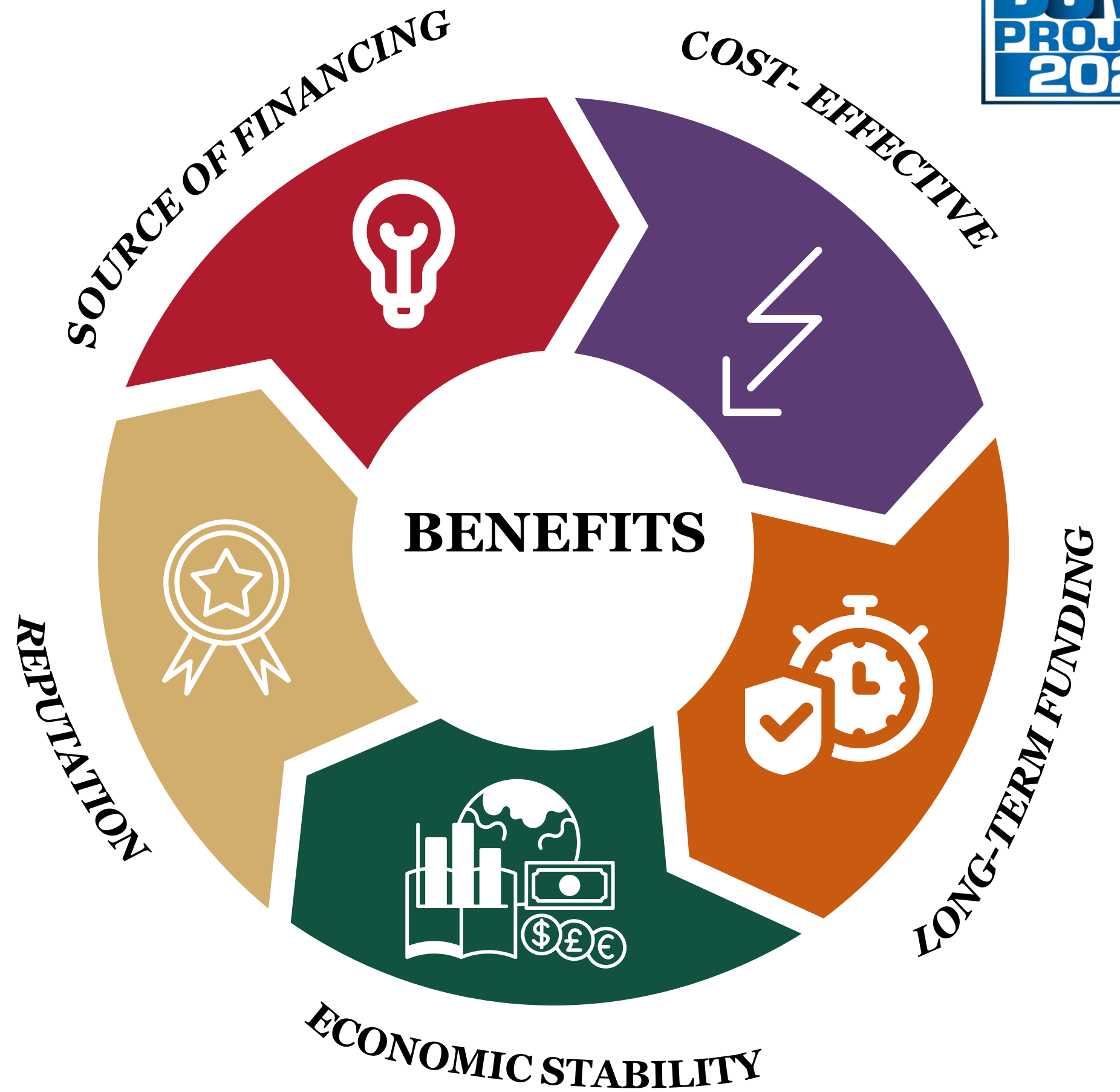
### Leverage

Securities held can be used as collateral for lending

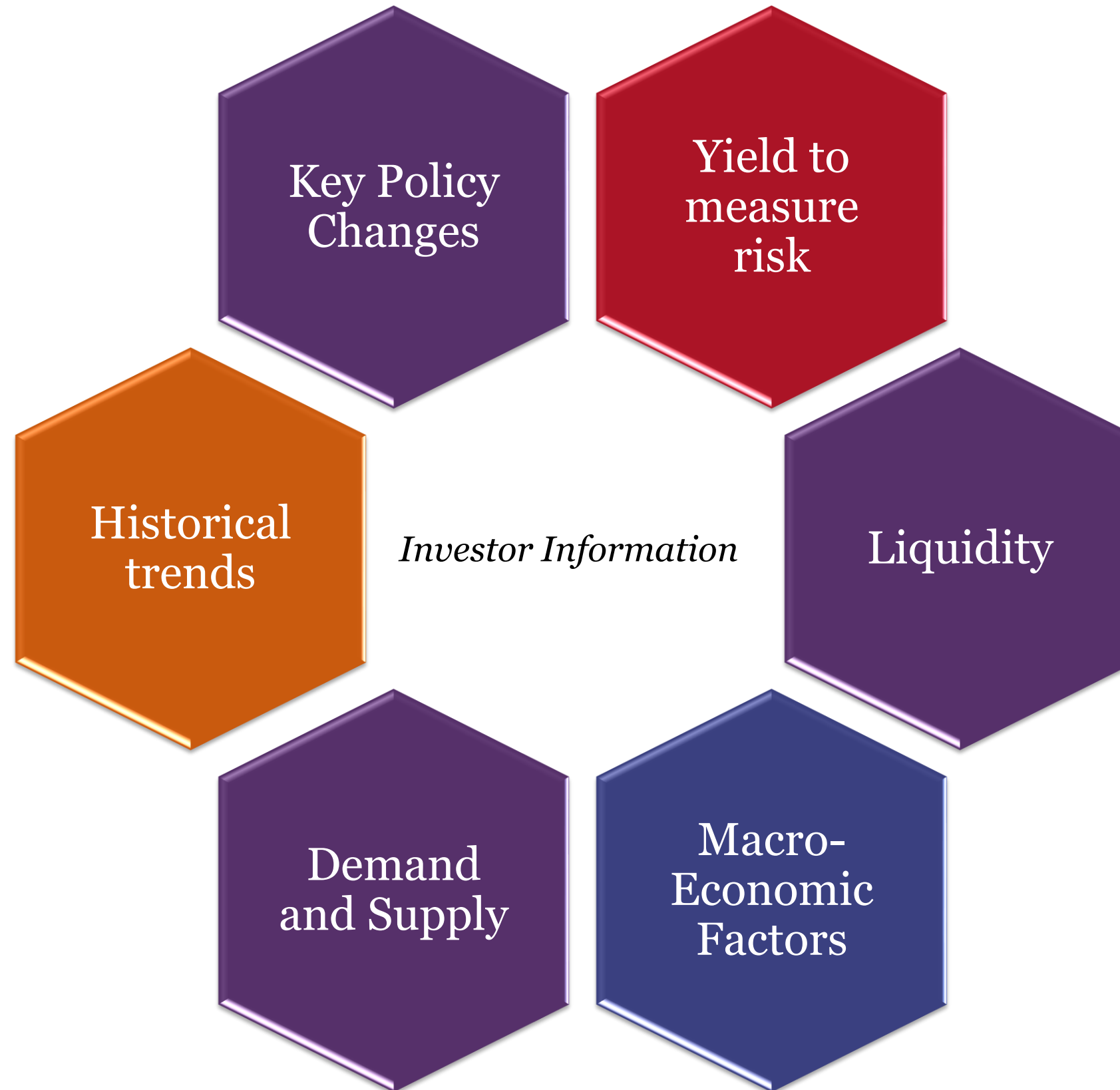


# Benefits

**For the Issuer  
(Government & Corporates)**



# What to watch out for



# Risks



## **Default Risk**

Either by failing to make interest payments or failing to repay the principal amount when the bond matures.

## **Interest Rate Risk**

Sensitive to changes in interest rates, and a rise in interest rates could cause the value of the bond to decrease, resulting in capital losses for the investor.

## **Political Risk**

Changes in government, policy changes, and geopolitical tensions, which can impact the value of the bond.

## **Liquidity Risk**

Bonds may be illiquid, meaning that there is limited trading volume, which can make it difficult for investors to buy or sell the bonds when they need to.



# Investment Process



Traditional brick and mortar institutions such as banks, asset managers and stockbrokers offer retail investors the outlet to invest in bonds.



Fintechs are unbundling financial services to offer convenience to customers to transact from the comfort of their phone and wide access to a variety of offers.

# Investment Access and Platforms



Through the NGX, stockbrokers can sell these instruments to investors



Fintech Platforms such as TradeFi offer Sovereign Bonds among other instruments

# Investor Types

*What type of investor are you?*



## PASSIVE

- Long-Term Investor
- Invests in favourable yields and collects the cash flow via coupon
- Risk Averse investor
- Investing for future obligations  
e.g school fees, retirement, house

## Investment Strategy

- Face Value – N5,000,000.00
- FGN 16.2499% 18/04/2037 bond @N100.00 (16.25% yield)
- Investment duration 14 years
- Earn Coupon every 6 months
- Coupon Paid N406,247.50 (avg)

Cash Flow to  
Maturity

N11,374,930



# Investor Types

*What type of investor are you?*



## WATCH AND SEE

- Waits for the favourable investment play
- Very cautious and risk averse
- Doesn't mind idle cash
- Turns to a passive investor

## Investment Strategy

- Face Value – N5,000,000.00
- FGN 16.2499% 18/04/2037
- Yields at 8%
- Market is overbought/ Low supply
- Inflation is high

Cash Flow to  
Maturity

N11,374,930

# Investor Types

*What type of investor are you?*



## ACTIVE

- Short- Term Investor
- Actively watching for entry opportunities
- High Risk Investor
- Quick Gains

## Investment Strategy

- Face Value – N5,000,000.00
- FGN 16.2499% 18/04/2037 bond @N100.00 (16.25% yield)
- Trade Duration 3 months
- Upside opportunity presents itself
- Yields fall 200bps (14.25%)

Capital gain of

N11.9k

N598,580.31

# Investor Types

*What type of investor are you?*



## CYCLICAL

- Rides the yield tide
- Actively watching key policy changes which affect the market direction
- High Risk Investor
- E.G FPI participation

## Investment Strategy

- Face Value – N5,000,000.00
- FGN 16.2499% 18/04/2037 bond @N100.00 (16.25% yield)
- Trade Duration 3 months
- CBN restricts sale of OMO Bills to FPIs
- Yields fall 200bps (14.25%)

Capital gain of

N11.9k

N598,580.31



**Thank you for listening**

